B4750-1
4/6/83

Financial Markets

Irving Trust

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Friday (Noon) Apr. 1, 1983

Quarter-end is usually a time of increased pressures in the money markets; but this quarter has ended with somewhat greater tensions, even though these are not clearly evidenced by tighter-than-expected market conditions. For example, the Fed funds rate has behaved as it usually does at quarter-end: strong and volatile. Too many things have happened in too short a time period for the financial markets to confidently chart a course through the crosscurrents, however, and other rates have not changed much. Let's review some of the major changes that occurred just before quarter-end and see what is likely to re-emerge on the other side.

Foremost in the minds of market participants are the questions: Has the Fed tightened? Is the Fed tightening? Answers are elusive because the financial markets have been socked with a number of special events just before quarter-end. The Fed did move the funds rate up just before the Treasury mini-refunding. This is not a usual time for the Fed to tighten. Consequently the refunding was very uneasy. During the same period, the European Monetary System went through a realignment. Market sentiment on this event remains uncertain because the quarter-end factors and concern over the Fed have dominated the situation. Here, Treasury Secretary Regan has stepped up to offer the observation that he sees no reason why short-term interest rates should rise. The Europeans seemed to place faith in his words, by bidding down Eurodollar rates. But how will the U.S. markets react when quarter-end pressures are dissipated? How should we view these remarks?

Even as we weigh the Treasury Secretary's words, we are reminded of the statements of several key policymakers made just a few weeks ago: Chairman Volcker expressed the view that banks could lower some of their interest charges; President Reagan asserted that banks could lower the prime rate a notch or two. Banks obliged and lowered the prime rate a notch. The Fed responded in seemingly perverse fashion by raising the Fed funds rate on the heels of the prime-rate cuts. The timing is of interest here. The firmer funds rate occurred just after Chairman Volcker expressed concern over fast-growing M1. He expressed this concern just after the Shadow Open Market Committee met and criticized Fed monetary policy. This sequence of events is probably not coincidental. Notwithstanding the fact that monetarism seems to be taking a real drubbing in the press, for not offering a credible operational guideline, the Fed apparently seems concerned about possible future attacks from monetarists. This makes the Fed act a little monetarist, but only a little.

The unsettled condition of the money and capital markets requires moderation in Fed policy to accommodate economic recovery. Because money market rates are poised to move ahead of the funds rate, the Fed will likely act to rein funds in between the 8 3/4% to 9% range. At such a level for funds, CDs are unlikely to push too hard on the bank prime rate. If the Fed can stave off prime-rate increases for a while longer, the strong seasonal adjustment factors for M1 in April may suffice to damp its fast growth. Still, the next several weeks will be very jittery, with money market pressures more likely to be pressing rates up than down. The Fed will be tested.

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Market Yields

	4/1/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	10.50%	10.50%	16.50%
Effective since	2/28/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	12.00
Federal Funds	8.88	8.63	16.13
Repurchase Agreements	8.75	8.63	16.00
U.S. Treasury Issues			
Bills			
3 months	8.67	8.82	13.80
6 months	8.67	9.09	14.10
1 year	8.61	9.23	14.10
Coupons			
2 years	9.63	9.85	14.40
4 years	10.25	10.20	14.30
7 years	10.50	10.52	14.20
10 years	10.88	10.57	14.10
Long Bond	10.38	10.61	13.56
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.00	8.85	14.70
3 months	9.10	9.00	14.65
6 months	9.15	9.15	14.55
1 year	9.50	9.45	14.55
Banker's Acceptances			
1 month	9.00	8.85	14.60
3 months	9.05	9.00	14.60
6 months	9.20	9.20	14.55
Eurodollar Deposits			
1 month	8.75	9.38	15.25
2 months	8.75	9.44	15.38
3 months	9.00	9.50	15.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.14	8.76	15.00
1 month	9.19	8.94	14.88
3 months	9.20	9.07	14.44
Bank Holding Companies			
1 month	8.68	8.56	14.10
Dealer Placed:			
3 months	8.81	8.98	15.15
New AA Corporate Utility Bond	12.15	12.10	16.50
Tax Exempt			
6 month Project Notes	5.00	4.70	8.20
1 year AAA Bond	5.25	4.85	8.30
5 year AAA Bond	6.50	6.40	9.50
20 year AAA Bond	8.75	8.75	12.10

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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